

REPORT OF EXAMINATION
OF THE
HANA HOME PROTECTION COMPANY
AS OF
DECEMBER 31, 2007

Filed August 18, 2008

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Los Angeles, California
June 6, 2008

Honorable Steve Poizner
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

HANA HOME PROTECTION COMPANY

(hereinafter also referred to as the Company) at the statutory home office and primary location of its books and records, 2140 West Olympic Boulevard, Suite 418, Los Angeles, California 90006.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2003. This examination covers the period from January 1, 2004 through December 31, 2007. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2007, as deemed necessary under the circumstances.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; accounts and records; loss experience; accounts and records; and sales and advertising.

COMPANY HISTORY

On December 2, 2004, the Company amended its Articles of Incorporation and increased the par value of its common capital stock from \$20 to \$50 per share. As of December 31, 2007 the Company has 100,000 shares of common capital stock authorized and 2,000 shares issued and outstanding.

During 2007, two Company officers declined their regular salaries for the months of February, November, and December in order to maintain the surplus as regards contractholders of \$200,000 as required by the California Department of Insurance.

MANAGEMENT AND CONTROL

The Company is owned by three individual shareholders: Joohee Clare Yun (33.5%), WooJin Kim (33.5%), and Anthony Oh Kwon (33.0%).

Management of the Company is vested in a three-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2007 follows:

Directors

Name and Residence

Joohee Clare Yun
La Canada, California

WooJin Kim
Torrance, California

Anthony Oh Kwon
Bakersfield, California

Principal Business Affiliation

Chairman of the Board and President
Hana Home Protection Company

Treasurer
Hana Home Protection Company

Secretary
Hana Home Protection Company

Principal Officers

<u>Name</u>	<u>Title</u>
Joohee Clare Yun	President
WooJin Kim	Treasurer
Anthony Oh Kwon	Secretary
Clement Yun	Controller

TERRITORY AND PLAN OF OPERATION

As of December 31, 2007, the Company was licensed to transact home protection insurance in California. The Company has three salespeople covering Los Angeles and Orange County. The Company is in the process of recruiting more sales staff to cover Riverside and San Bernardino Counties. Warranty products are offered to buyers at \$245 for the base coverage and optional coverage is available with additional fees.

The Company wrote \$818,000, \$912,000, \$514,000, and \$279,000, of contract fees during the years 2004, 2005, 2006, and 2007, respectively. All the contracts issued were twelve-month contracts with the Company's discretion to renew coverage. The contract obligates the Company to repair or replace covered items during the contract period for the following systems with specified exclusions: plumbing, water heater, heating, electrical, garage door opener, central vacuum system, telephone system, pest control, and kitchen appliances. For an additional fee, the Company offers coverage for: central air conditioning (electric), pool and spa equipment, washer and dryer, refrigerator, and limited roof repair.

REINSURANCE

The Company has no reinsurance assumed or ceded.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2007

Underwriting and Investment Exhibit for the Year Ended December 31, 2007

Reconciliation of Surplus as Regards Contractholders from December 31, 2003
through December 31, 2007

Statement of Financial Condition
as of December 31, 2007

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Cash in company's office	\$ 1,182	\$ 1,182	
Cash on deposit	28,718	28,718	
Cash and short-term investments	338,605	338,605	
Home protection contract fees receivable	<u>4,510</u>	<u>4,510</u>	
Total assets	<u>\$ 373,015</u>	<u>\$ 373,015</u>	
<u>Liabilities, Surplus and Other Funds</u>			
Claims adjusted and unpaid or in process of adjustment		\$ 1,239	
Other expenses		2,699	
Tax, licenses and fees		166	
Unearned home protection contract fees		<u>115,716</u>	
Total liabilities		119,820	
Common capital stock	\$ 100,000		(1)
Gross paid-in and contributed surplus	300,000		(1)
Unassigned funds (surplus)	<u>(146,805)</u>		
Surplus as regards contractholders		<u>253,195</u>	
Total liabilities, surplus and other funds		<u>\$ 373,015</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2007

Statement of Income

Underwriting Income

Home protection contract fees earned	\$ 376,297
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Deductions:

Claims incurred	\$ 92,611
Other expenses incurred	<u>342,027</u>

Total underwriting deductions	<u>434,638</u>
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Net underwriting loss	(58,341)
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Investment Income

Net investment income earned	<u>\$ 20,221</u>
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Net investment gain	20,221
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Other Income

Service fee income	<u>\$ 505</u>
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Total other income	<u>505</u>
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Net loss	<u>\$ (37,615)</u>
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Capital and Surplus Account

Surplus as regards contractholders, December 31, 2006	\$ 290,810
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Net loss	<u>\$ (37,615)</u>
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Change in surplus as regards contractholders	<u>(37,615)</u>
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Surplus as regards contractholders, December 31, 2007	<u>\$ 253,195</u>
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Reconciliation of Surplus as Regards Contractholders
from December 31, 2003 through December 31, 2007

Surplus as regards contractholders, December 31, 2003, per Examination		\$ 203,362
	<u>Gain in Surplus</u>	
Net income	\$ 19,833	
Change in nonadmitted assets	<u>30,000</u>	
Totals	<u>\$ 49,833</u>	
Net increase in surplus as regards contractholders for the examination		<u>49,833</u>
Surplus as regards contractholders, December 31, 2007, per Examination		<u>\$ 253,195</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Common Capital Stock Gross Paid-in and Contributed Surplus

The amounts reported by the Company in its Annual Statement for the above captioned items did not accurately reflect the increased par value of its common capital stock from \$20 to \$50, which occurred in 2004. This examination increased the amount reported by the Company for common capital stock from \$40,000 to \$100,000 and decreased the amount reported for gross paid-in and contributed surplus from \$360,000 to \$300,000 to reflect the increase in par value of the common capital stock. It is recommended that the Company accurately report the amount of its common capital stock and gross paid-in and contributed surplus in its financial statements.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Common Capital Stock and Gross Paid-in and Contributed Surplus (Page 8): It is recommended that the Company accurately report the amount of its common capital stock and gross paid-in and contributed surplus in its financial statements.

Previous Report of Examination

Company History (Page 2): It was recommended that the Company maintain its surplus as regards contractholders above \$200,000. The Company's surplus as regards contractholders is currently above \$200,000.

Management and Control – Related Party Transactions (Page 3): Two officers declined salaries; however, this was not documented in the board minutes. It was recommended that the Company memorialize the nature of this transaction, obtain and record board approval and apply the proper accounting recognition. It was also recommended that the Company implement written criteria for paying bonuses to its directors based on the Company's profitability. The Company implemented procedures to memorialize the nature of officers' declining salaries in the board minutes. However, the Company has not implemented written criteria for paying bonuses to its directors.

Comments on Financial Statements Items – Loan from Directors (Page 8): It was recommended that the Company enter into a formal loan agreement with its directors. The agreement should reflect the term, interest rate and the amount of the loan. It was also recommended that the Company accrue interest on the loan and report it in the future financial statements. The Company no longer has any loans from its directors.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

/S/

Margaret T. Shum
Examiner-In-Charge
Insurance Examiner
Department of Insurance
State of California